

Audit of USAID/Haiti's Public Law 480 Title II Program

Audit Report No. 1-521-02-006-P

January 28, 2002

Regional Inspector General / San Salvador



U.S. Agency for
INTERNATIONAL
DEVELOPMENT

RIG/San Salvador

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MEMORANDUM

FOR: USAID/Haiti Director, David Adams

FROM: Acting RIG/San Salvador, Steven H. Bernstein

SUBJECT: Audit of USAID/Haiti's Public Law 480 Title II Program (Report No. 1-521-02-006-P)

This is our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft report, which are included in their entirety in Appendix II.

This report includes one recommendation for your action. A management decision has been made for Recommendation No. 1. A determination of final action will be made by the Office of Management Planning and Innovation when planned actions for Recommendation No. 1 have been completely implemented.

I appreciate the assistance and cooperation provided to the audit staff on this assignment.

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Summary of Results

As part of its fiscal year 2001 audit plan, the Regional Inspector General/San Salvador performed this audit to determine whether USAID/Haiti Public Law 480 (P.L. 480) Title II activities were achieving planned outputs and whether or not commodities were protected against loss and diversion (see page 4).

The USAID/Haiti P.L. 480 Title II program was achieving its planned outputs (see page 4). In addition, the commodities provided were protected against loss and diversion (see page 5).

However, the mission's methodology for selecting sites for inspections by its monitoring staff could be improved. We made one recommendation that should help USAID/Haiti improve its monitoring of activity sites (see pages 6 to 7).

USAID/Haiti was in agreement with the findings and recommendation in this audit report (page 7).

Background

Enhancing food security among Haiti's most needy is the aim of the USAID/Haiti P.L. 480 Title II program. Vulnerable groups, namely primary school children in poor schools, children 0 - 5 years of age, lactating and pregnant women, and orphans are targeted by the program's activities. Some individuals from these groups are also participants of USAID's education, maternal-and-child health, orphan and at-risk children programs. Food-for-work activities also use Title II resources to support infrastructure improvements that benefit agriculture, sanitation and environment initiatives.

In fiscal year 2001, about \$16.4 million in P.L. 480 Title II commodities were provided to Haiti.

CARE and Catholic Relief Services (CRS), two private voluntary organizations (PVOs), and World Vision International (CRS' sub-grantee) implemented the program. To achieve program objectives, P.L. 480 Title II commodities are used as food supplements, and are also sold to local buyers for cash to raise money to fund program activities. The program's four main activities are:

- School canteens - aimed to increase school attendance and improve performance by providing a daily hot meal to students in targeted schools.
- Maternal/child health - provide pre- and post-natal care, nutrition, education and growth monitoring services to nutritionally vulnerable pregnant women, lactating mothers and children up to 5 years of age. In addition, food supplements are provided to malnourished participants. The program is implemented through public and private health institutions.

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- Other child feeding and general relief activities - provide food supplements to orphans and abandoned children throughout the country, as well as the elderly and sick living in institutions.
 - Food-for-work activities - upgrade and maintain urban and rural infrastructure in selected communities. Infrastructure is mostly directed at enhancing agricultural productivity, such as irrigation canals and feeder roads or constructed to enhance sanitation and hygiene in urban slums, such as water and waste canals.
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Audit Objectives

As part of its fiscal year 2001 audit plan, the Regional Inspector General/San Salvador performed the audit to answer the following questions:

- Are P.L. 480 Title II programs in Haiti achieving planned outputs?
- Are P.L. 480 Title II program commodities adequately protected against loss and diversion?

We limited the audit to P.L. 480 Title II activities implemented during fiscal year 2001. See Appendix I for a more detailed audit scope and methodology.

Audit Findings

Are P.L. 480 Title II programs in Haiti achieving planned outputs?

P.L. 480 Title II programs in Haiti were achieving planned outputs. The mission had a planned total output of 449,044 beneficiaries as presented in the Annual Estimate of Requirements (AER)¹ of its cooperating sponsors. As of the June 30, 2001, the mission's cooperating sponsors reported total actual program beneficiaries of 466,523 or 104 percent of the planned output. In the audit, we visited the three principal distribution warehouses and 44 randomly selected activity sites of the mission's two cooperating sponsors and one CRS sub-recipient. These site visits were to determine whether or not the program was serving its planned number of beneficiaries. The results of the site visits showed that the number of planned program beneficiaries was met or exceeded at 91 percent of the sites. Based upon the results of the site visits, we judged that the P.L. 480 Title II program was achieving its planned outputs.

¹ USAID Regulation 11 defines the AER as a statistical update of the Operational Plan that is signed by the cooperating sponsor requesting commodities under Title II. When signed by USAID/Washington, the AER, together with the Food for Peace Program Agreement between USAID and the cooperating sponsor, the approved Operational Plan, and this Regulation 11, form a donation agreement between USAID and the cooperating sponsor.

Are P.L. 480 Title II commodities adequately protected against loss and diversion?

P.L. 480 Title II commodities are adequately protected against loss and diversion. Specifically, we determined through field visits to three warehouses and 44 distribution sites that the mission required periodic reports from cooperating sponsors on commodity inventories and losses, and that warehouse access was limited to authorized personnel. The audit also showed that regular physical counts of commodities were made by warehouse managers, there were adequate storage facilities to ensure that donated commodities were in good condition, and that proper claims were filed when losses occurred. Moreover, both the mission and cooperating sponsors had implemented monitoring systems to protect commodities against loss and diversion.

Regarding the storage of commodities, USAID Regulation 11 states "that the cooperating sponsor shall be responsible for the maintenance of the commodities in such manner as to assure distribution of the commodities in good condition to recipient agencies or eligible recipients." Further, this same guidance holds the cooperating sponsor financially liable for losses caused by poor storage stating "if a cooperating sponsor causes loss or damage to a commodity, monetized proceeds or program income through any act or omission or failure to provide proper storage, care and handling, the cooperating sponsor shall pay to the United States the value of the commodities."

Moreover, USAID Regulation 11 directs that "Cooperating sponsors and recipient agencies shall maintain records and documents in a manner which accurately reflects the operation of the program and all transactions pertaining to the receipt, storage, distribution, sale, inspection and use of commodities."

Based on the field visits, we determined that the following safeguards were in place:

- The mission requires periodic reporting from each cooperating sponsor on the receipt, use and loss of commodities.
- Access to warehouses was restricted to personnel authorized by management and cooperating sponsors.
- Warehouse managers and storekeepers made regular physical counts or inventories of food stored in their warehouses.
- The mission has instituted a system of monitoring to ensure that the commodities are protected against loss and diversion by conducting inspection visits to distribution sites. Further, each of the cooperating sponsors has implemented its own commodity management and monitoring systems that provide additional support for this goal. The cooperating sponsors combined have approximately

40 commodity monitors and each organization has a system that includes the elements listed above.

- When commodity losses did occur, responsibility for the cause of the loss was determined, actions to recover the value of commodities loss were pursued, when appropriate, and damaged commodities were properly disposed of.

However, as described below, mission monitors could improve their methodology for the selection of sites to be inspected.

Mission Food Monitors Should Randomly Select Inspection Sites

The Food and Nutrition Assistance "Sampling Guide" provided under the Food and Nutrition Monitoring Project (IMPACT) (Contract No. DAN-5110-Q-00-0014-00, Delivery Order 16) strongly recommends the use of probability sampling methods in monitoring/evaluating P.L 480 Title II programs. The Sampling Guide recognizes that using probability sampling may have somewhat higher costs and could produce the same results as informal sampling. However, it recommends using probability sampling because monitoring/evaluation work based on statistical theory has a greater degree of credibility and is more easily defensible than that based on informal sampling methods. This contrasts with monitoring/evaluation work based on informal samples that may be vulnerable to questions over whether the sample is a good representation of the population or whether it is biased.

During fiscal year 2001, food was distributed through 2,038 school-feeding, maternal child health, other child feeding and general relief centers. According to mission officials, as of June 30, 2001, mission food monitors had visited 277 centers, or 13 percent of the total centers. The monitors had used judgmental sampling to select these sites. It is difficult to rely on judgmental sampling to provide a representative picture of program results.

The mission Food-for-Peace officer stated that they had at times considered establishing a policy for monitors to use statistical sampling in planning their site visits, but had not yet implemented a plan to do so.

As a result of using judgmental sampling methods, some sites were visited infrequently or not at all. For example, during our visit to La Gonave, an island that has 34 distribution centers and a warehouse, a mission official told us that the monitors last visited the island four years ago. For the reasons stated in the Sampling Guide cited above, random selection of activity sites is the most reliable

method to ensure that monitors visit a representative sample of activity sites, barring annual visits to 100 percent of all sites, each year.

Recommendation No. 1: We recommend that USAID/Haiti use random sampling techniques to select the Public Law 480 Title II centers to be periodically visited.

**Management
Comments and
Our Evaluation**

USAID/Haiti was in agreement with the findings and recommendation in the report.

In response to the report's one recommendation, USAID/Haiti agreed to use random sampling to select the sites for the field monitors to visit, and stated that it would take the required action to identify the most appropriate statistical sampling method to use.

We agree that a management decision has been made for the recommendation.

Scope and Methodology

Scope

We audited USAID/Haiti's P.L. 480 Title II activities in accordance with generally accepted government auditing standards. We conducted the audit in Haiti from August 20, 2001 through October 12, 2001 at the offices of USAID/Haiti, CARE, Catholic Relief Services (CRS) and World Vision (CRS' sub-recipient), the warehouses in Port-au-Prince, Gonaïves and Anse a Gale, and 44 randomly selected distribution centers.

The audit covered P.L. 480 Title II activities for fiscal year 2001 (October 1, 2000 to September 30, 2001) and covered results achieved through June 30, 2001. The audit covered \$16.4 million in commodities for direct use and proceeds from the sale of commodities, as reported by the USAID/Bureau for Democracy, Conflict, and Humanitarian Assistance and cooperating sponsors for this period.

There were 2,038 distribution centers, which included school-feeding, maternal child health, other child feeding, and general relief centers. School feeding centers were not in operation during the time of the audit so our audit universe consisted of 400 maternal child health, other child feeding, and general relief centers. Though we did not visit school feeding centers, in our opinion, the results of our visits to the other centers are representative of them because the school feeding centers are serviced by the same food distribution and monitoring system as the maternal child health, other child feeding and general relief centers.

We visited a randomly selected sample of 44 distribution sites which provided 95 percent confidence level that our findings at the 44 sites would be representative of all 400 sites with precision of plus or minus 8 percent. In addition, we visited all three of the major warehouses used by the cooperating sponsors

We assessed the mission's risk exposure and management control effectiveness for ensuring that program activities were on schedule to achieve planned outputs. We interviewed USAID/Haiti, CARE, CRS and World Vision officials and reviewed the following management controls: 1) self-assessing its adherence with the Federal Managers' Financial Integrity Act of 1982 in its October 2000 report, 2) review of cooperating sponsors Annual Estimate of Requirements and Operational Plans, 3) obtaining quarterly Commodity Status and Recipient reports from its cooperating sponsors, and 4) performing site visits.

For the first objective, we determined whether planned outputs had been achieved. With respect to the second audit objective, the audit determined whether or not the mission and cooperating sponsors had established adequate controls to ensure that commodities are used as intended and not diverted and that commodities are protected against loss and misuse.

Methodology

In order to answer the first audit objective, which dealt with achieving planned outputs, we interviewed USAID officials (including the activity manager and project designers) to determine their responsibilities for controls, procedures, policies, and regulations regarding the Title II program. We also reviewed official correspondence files at USAID/Haiti. In addition, we obtained and reviewed relevant USAID/Haiti and cooperating sponsor design documents, work plans, and progress reports to identify the planned and actual outputs and any progress to date and obtained mission documentation to substantiate these results. We judged that accomplishment of planned outputs for the overall program and a positive audit opinion would occur if 90 percent of the planned outputs were achieved at 90 percent of the sites visited.

We determined if losses occurred through examination of the commodity status reports, and reviewing supporting documentation to determine if loss and damage claims were filed and pursued by the cooperating sponsors.

We also determined (1) the degree of separation of duties at each cooperating sponsor by reviews of their organizational charts and interviews with personnel, (2) if access to warehouses was restricted to personnel authorized by management and (3) if cooperating sponsor and counterpart warehouse managers and storekeepers made regular physical counts or inventories of food stored in their warehouses.

During these site visits, we interviewed the staff managing the distribution sites to determine (1) if the reported number of beneficiaries were being served, (2) the frequency of commodity deliveries and the last delivery received, and (3) who was authorized to sign for receipt of commodities. We then examined the most recent receiving report to determine if authorized personnel signed it, and reconciled the waybill for commodities shipped from the warehouse against commodities received at the distribution site. Also, we determined if any spoiled commodities were received, or if commodity losses occurred and determined if loss reports were filed and if the cooperating sponsor replaced the commodities.

In addition, at each distribution center we reviewed the available records regarding beneficiaries served, commodities received, used or distributed, and commodities remaining in storage. Further, we conducted counts of commodities on-hand to determine their actual quantity, and compared this to the centers records to determine if any discrepancies existed. Finally, we inspected the commodity storage facility to determine if it was secure and adequate to keep the commodities in good condition.

Management Comments



Memorandum

Date: January 15, 2002
From: David Adams, USAID/Haiti Mission Director
Subject: Comments on the RIG Draft Audit Report No. 1-521-02-00X-P
To: Timothy E. Cox, RIG/A/San Salvador

This memorandum constitutes USAID/Haiti's response to the RIG Draft Audit referenced above on USAID's PL 480 Title II Program.

General Comments:

USAID/Haiti appreciates the time and effort of your staff in carrying out the performance audit of the PL 480 Title II program. After completing its review of the Draft Audit Report, the Mission has no specific comments to make regarding the substance contained therein. In addition, we found the recommendation noted in the report to be appropriate and actionable although we noted that the example of the island of La Gonave used by the auditors, was a true exception rather than the norm in view of the logistical difficulties involved in serving the island.

USAID/Haiti will take the required action to identify the most appropriate statistical sampling method to randomly select the sites for the USAID field monitors to visit. We have reviewed various alternatives over the past few weeks and will make a decision in the very near future. A random selection of sites may prove to be more costly logistically to do which may limit the overall number of visits. On the other hand, given the randomness of the selection, program management may build into the field monitor role other activities and field surveys of the areas they will be visiting so as to enhance the results achieved through field trips, increasing the amount and quality of the information obtained. Furthermore, a written description of the selected mechanism and the process will be provided to ensure that all field monitors and project staff understand the new system.

In closing, USAID/Haiti would again like to express its appreciation for the manner in which the audit was

conducted and the usefulness of the recommendation contained therein.